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USTR for Bennett Harman

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SUBJECT: ECUADOR RAISES TARIFFS TO BUFFER BALANCE OF PAYMENTS

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¶1. (SBU) Summary: On November 26, the GOE raised tariffs to WTO ceiling limits on 940 consumer goods from non-FTA partners. Foodstuffs, white goods and small appliances, paper products, and others have been increased to an average rate of 29%. It appears the GOE instituted this largely as a balance of payments measure to curb imports. End Summary.

¶2. (SBU) Ecuador's Council for Foreign Trade and Investment (COMEXI), the GOE's trade policy committee, increased import tariffs on 940 products. COMEXI stated that imports of those products totaled \$1 billion, and the tariff hike should increase government revenues by \$85.5 million. The majority of the 940 products previously faced tariffs of between 5 and 20%. The tariffs have now been raised to the maximum levels allowable under Ecuador's WTO commitments. The average tariff for the 940 products was 18%; with the increases it is now 29%.

¶3. (U) Products subject to tariff increases include foodstuffs (fish, meat, fruit and vegetables, nuts, teas, cereals, rice, and condiments); white goods such as stoves, ovens, and microwaves; small appliances such as blenders and hairdryers; paper products (notebooks, toilet paper, diapers); floor coverings; suitcases and purses; cameras, and decorative household items, among other products. Tariffs on some construction materials were also raised. Notably, the tariff on cellular phones was raised to 15% (after being dropped from 15% to zero in September).

¶4. (U) The tariff increases will not apply to products from FTA partner countries, meaning products from important trading partners Colombia, Peru, and Chile will not be affected. However, U.S. and Chinese products will be. Approximately \$160 million worth of U.S. imports will be affected, with washing machines, optical media, radio and television electronic parts, sauces and condiments, and sound systems at the top of the list. Some toys, luxury vehicles, kitchenware, and carpets will also be affected. Cell phones are most affected, but since the tariff on cell phones was only dropped to zero in September, the increase merely raises the rate back to where it was in August.

¶5. (SBU) The purpose of the tariff increases was reportedly to reduce the impact of the financial crisis, falling petroleum prices, and the increase in prices of inputs. According to the document issued by COMEXI announcing the increases, tariffs constitute "an instrument of economic policy that should promote productive activities in the country and establish methods of protecting national production." However, business people in Ecuador have said they believe it is an attempt to curb imports. Some products, such as cell phones, are not manufactured in Ecuador at all, so the

argument for protecting national production does not hold for this product. The President of the Chamber of Commerce of Quito complained that the measure would increase contraband as importers seek to avoid the higher tariffs.

¶6. (SBU) Comment: This is the latest in a string of tariff adjustments by the GOE, following tariff reductions on inputs. Last fall, the GOE took similar action, reducing tariffs on inputs and increasing them on clothing, jewelry, foodstuffs, and other consumption goods (ref B). However, this year's measure increases tariffs much more than before - to WTO ceiling rates, and appears to be aimed at curbing imports in response to Ecuador's deteriorating balance of payments situation as oil prices fall (ref A). This measure alone will not be sufficient to address the balance of payments pressure, since this does not cover a wide swath of imports, including capital and intermediate goods and goods imported from FTA partners. If oil prices remain low, we may see more of these measures or non-tariff measures. In fact, COMEXI recently instituted a new standards requirement that also appears to be aimed at curbing imports.

HODGES